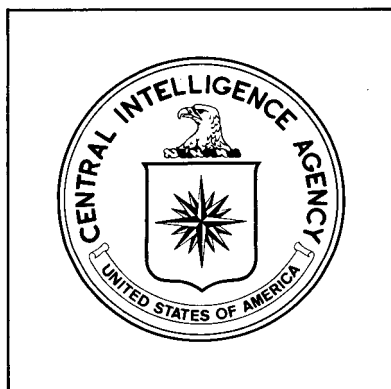


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MIDDLE EAST – AFRICA – SOUTH ASIA

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Saudi Arabia

Development Fund Activated

The Saudi Development Fund, founded last September to dispense low interest loans to less developed countries, established a conservative precedent at its first board meeting early this month. It will apply stringent tests for applications for aid. Proposals must be well documented and the feasibility of projects demonstrated. The Fund will also require recipients to avoid "mixing" Saudi assistance with aid from Communist or "Zionist" sources.

At the board meeting, \$291 million of the Fund's \$2.9 billion was allocated for four loans. The current Saudi budget provided the Fund with \$870 million, and the rest will be transferred over the next two years. The board plans to obligate one half of the \$2.9 billion within three years and has the power to invest undisbursed funds until they are needed. According to the Fund's charter, no more than 10 percent of the \$2.9 billion can go to any one country. Disbursement of individual loans will be over a number of years, and the Saudis can unilaterally cancel any undisbursed portion. Loans carry easy repayment terms, but must be repaid in Saudi riyals.

At least two of the four loans approved at the board meeting were announced months ago. A \$161 million loan to Egypt for Suez Canal development, railway, cotton carding, and telephone communications projects was first made public last November. The second loan approved, a \$70 million loan for Malaysia, appears to be a scaling down of an \$85 million loan reported last January. In addition, Uganda and Mali each are to receive \$30 million. Only the Suez project has been fully approved; feasibility studies must still be examined for the others.

Activation of the Fund follows a visit last month by World Bank President McNamara. He declined the Saudis' request for assistance in organizing and operating the Fund, citing manpower limitations of the World Bank, but most of the loans approved by the Fund this month were based on World Bank project studies. (CONFIDENTIAL)

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Kenya

Twilight for Kenyatta

President Jomo Kenyatta's hold on Kenyan affairs apparently has about run its course. Kenyatta's once towering prestige has gradually eroded over the past few years; the pace has quickened recently by widespread suspicion that the President or his lieutenants were involved in the murder of J. M. Kariuki, an outspoken government critic. The octogenarian Kenyatta may well survive the current crisis--the most severe since Kenya became independent 12 years ago--but political change appears near.

Erosion of Prestige

The affection and respect enjoyed by Kenyatta until recently has been a major factor in the country's stability. This esteem was based on his years of imprisonment for involvement in the Mau Mau uprising, his pre-eminent role in leading Kenya to independence, and his image as a father figure devoted to the welfare of all Kenyans.

The President's appeal and his exhortations for unity have begun to wear thin in recent years, and anti-Kenyatta sentiment has gained ground, especially among groups that have lost out to Kenyatta's fellow Kikuyu. Even among the Kikuyu, resentment between northerners and Kenyatta's southern clansmen has become more pronounced. The President has heavily favored the southern Kikuyus in the allocation of jobs, land, and other benefits; more often than not, government development projects have been located in the southern Kikuyu homeland. Kenyatta makes key decisions on the advice of a small group of southern Kikuyu political figures, known as the Gatundu group after the location of the president's country home.

More recent developments have added to the mood of dissatisfaction. The urban poor were hard hit last year by a cost-of-living rise in excess of 15 percent, as well as by widespread shortages and an

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increase in unemployment. Organized labor continues to chafe under a strike ban imposed by Kenyatta last summer, and union leaders may call a general strike later this month. University students have become restive over several issues including the government's unwillingness to improve living conditions. The landless have been disappointed by the government's failure to make land grants as it did during the 1960s.

Stories of corruption in high places have not helped. Among them are reports of illegal export of foodstuffs intended for the local market and the acquisition of extensive land and wealth by high ranking regime figures, especially Mama Ngina, Kenyatta's youthful fourth wife. Kenyatta himself is now rumored to be involved in corruption and land grabbing, an unthinkable speculation only two years ago.

The government was rocked in February and March by a series of unsolved terrorist incidents, the worst of which resulted in 27 deaths and many injured. The shadowy Poor Peoples Liberation Front claimed responsibility for two of the bombings that produced no casualties. Vandalism has even occurred on farms belonging to Kenyatta and his wife. Several anti-Kenyatta leaflets have appeared in Nairobi, and on April 10 two bombs exploded near Kenyatta's residence in Mombasa.

Political impact of Kariuki murder

Popular dissatisfaction with the Kenyatta regime reached a new high following discovery early in March of the body of J. M. Kariuki, a vocal and popular opponent of the Kenyan government and an outspoken champion of Kenya's have-nots. Kariuki, a member of parliament, was known to have been closely watched by security officials. The unusual and dilatory police handling of the murder points to the involvement of persons enjoying the protection of the southern Kikuyu establishment. Many Kenyans believe that Minister of State Mbiyu Koinange, a member of the Gatundu group, and perhaps even Kenyatta, are implicated in the murder and a cover-up attempt.

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Kariuki belonged to the Nyeri clan of the northern Kikuyu, bitter foes of the southern Kikuyu. The more numerous northern clansmen played the most active role in the Mau Mau uprising only to have the southern Kikuyu win power and material advantage after independence. Some of the northern Kikuyu are reported to be planning reprisals against southern Kikuyu, including Koinange. They may have been behind the terrorist incidents in February and March.

Kenyatta' Weakening Grip

The government's ability to restore public confidence seems to have been hampered by Kenyatta's unwillingness to delegate authority and by his apparent inability to give sustained attention to pressing political and economic problems. A close associate recently described the President as distracted and confused; at cabinet meetings on the Kariuki case he was said to have difficulty concentrating and speaking.

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Kenyatta's gradual fall from grace may have re-kindled the hope of the Luo--Kenya's second largest ethnic group--of winning a share of political power befitting its size. At independence, the Luo and their leaders Oginga Odinga and Tom Mboya played an important part in the government. Kenyatta and Odinga subsequently split over ideological differences. Thereafter, Odinga was consistently outmaneuvered by the southern Kikuyu. In 1969 Tom Mboya, who was widely considered as the successor to Kenyatta, was murdered under circumstances that also cast suspicion on leading southern Kikuyu.

Focus on Parliament

Kenya's parliament may be of crucial importance to the fate of the beleaguered Kenyatta government. In the past, Kenyatta's prestige and control of the government permitted him to ignore critics in

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and the police. These new leaders would probably include prominent southern Kikuyu, but would also have to be representative of a broader segment for it to work.

Kenyatta's inclination would be to resist such a scheme. A few years ago he balked even at the suggestion that the post of prime minister be created to ease his burden. Kenyatta is aware of his loss of popularity, however, and this time the public's attitude might convince him to agree to a face-saving dilution of his power.

Only a few of Kenya's present leaders have much prospect of playing a leading role in such a new leadership. Vice President Daniel arap Moi, who is widely viewed as an honorable man, appears to have maintained his credibility in the wake of the Kariuki murder. Moi is hampered by modest ability and his membership in a politically unimportant tribal grouping. Finance Minister Mwai Kibaki is considered one of the most able members of the present government. He is a northern Kikuyu and has kept his distance from the southern Kikuyu establishment. Three capable backbenchers--Charles Rubia, a northern Kikuyu, M. J. Seroney, the popular deputy speaker, and Martin Shikuku, another champion of the have-nots, are also men to watch.

Armed Forces and Police

Kenyatta's future course will depend in part on his assessment of the loyalty of the armed forces and police. Following a military mutiny in January 1964, Kenyatta re-established firm civilian control of the military. He began to bring in large numbers of Kikuyu to offset the predominant position of the rival Kambas among whom the British had recruited heavily during the colonial era. Kenyatta also established a small well-equipped Kikuyu-manned paramilitary police unit, and staffed the new air force heavily with Kikuyus. The military and police have generally accepted subordination to civilian authority, partly because of a sense of professionalism engendered by a continuing close relationship with the British armed forces.

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Although dominated by the Kikuyu, the security forces have been affected by the Kariuki murder. Animosities between northern and southern Kikuyu have been heightened, limiting their dependability in the event of trouble.

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[REDACTED] grumbling in the officer corps over pay and weapons, and some Kamba officers are said to be talking about a coup, but they apparently have no plans to intervene soon. Military leaders, like most Kenyan civilians, appear content to wait and see the results of the parliamentary committee's investigation. (SECRET NO FOREIGN DISSEM/ NO DISSEM ABROAD/BACKGROUND USE ONLY/CONTROLLED DISSEM)

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Pakistan

*Bhutto Opponent Ousted From
Azad Kashmir Leadership*

Supporters of Prime Minister Bhutto have gained control of the local government of Azad ("Free") Kashmir, a semi-autonomous part of the Pakistani-controlled portion of Kashmir. Bhutto's successful effort to depose the area's chief executive resembles his maneuvers to establish and maintain control of governments in other Pakistani regions where his own party lacks wide popular support.

Last week, Sardar Qayyum Khan, the "president" of Azad Kashmir since 1970 and long-time leader of the largest political party there, was removed from office by a no-confidence vote in the local legislature. The vote occurred after a political lieutenant of Bhutto put together a coalition of several smaller parties, including the local wing of Bhutto's Pakistan People's Party. Over the past few years the Prime Minister has used financial blandishments, political maneuvers, and intimidation to forge pro-Bhutto governing coalitions in Pakistan's western border provinces, where--as in Azad Kashmir--his party lacks the broad public support it enjoys in the more populous provinces. Similar tactics probably were used to create the coalition in Azad Kashmir.

Although Qayyum's successor apparently has not yet been chosen--only an interim president has been appointed--the removal of Qayyum is likely to give Bhutto a more pliant regime in Azad Kashmir. Qayyum's generally independent stance toward the Islamabad government has displeased Bhutto. Qayyum's orthodox Islamic outlook is at odds with Bhutto's secular, socialist approach, and his hard-line attitude toward India is inconsistent with Bhutto's efforts to reduce differences with New Delhi.

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Qayyum's loss of the presidency will hurt his prospects and those of his party in local elections in Azad Kashmir next month. According to the US embassy in Islamabad, Qayyum's popularity in the region probably will not enable him to overcome the election advantages the new coalition will derive from control over local government resources and backing from the central government.

India may criticize Bhutto for manipulating events in Azad Kashmir, but its complaints will probably be little more than pro-forma. The Indians are satisfied with the status quo in the long-disputed Kashmir region, two-thirds of which is under New Delhi's control. Moreover, they recognize that Qayyum has long been critical of their policies in Kashmir and that he strongly opposes better Indo-Pakistani relations. (CONFIDENTIAL)

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